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Cynthia L. Johnson
Director - Cash Management Policy and Planning Div.
Financial Management Service
U.S. Department of the Treasury
401 14th Street S.W., Room 420
Washington D.C. 20227

RE: Comment on 31 CFR 208; Management of Federal Agency Disbursements

The Upper Midwest Automated Clearing House Association (UMACHA) is supportive of the U.S. Department of the Treasury's movement toward using electronic means to pay it's vendors, employees and beneficiaries. As has been shown by Social Security, the IRS and a number of other agencies, use of the ACH network (and other electronic networks) can reduce the costs of processing transactions and increase the ability of the federal government to effectively manage their funds.

UMACHA represents over 1,000 financial institutions in the Upper Midwest. We work closely with FMS, IRS, Social Security and many other agencies to ensure our member financial institutions clearly understand their rights, responsibilities, and opportunities when it comes to working within the Automated Clearing House, or ACH network. In 1997 alone we presented over 30 ACH workshops and sponsored a number of others on payment related topics. Included in virtually all the workshops was information about the upcoming Federal mandate.

Most of our comments will be directed at section 208.5, "Access to Account Provided by Treasury" but there were a couple of other items we would like to note first.

There was a fairly long discussion of what an "authorized payment agent" might be. We agree with the definition suggested by Treasury, that it should be a financial institution for a recipient, (beneficiary, vendor or representative payee). It should not be defined as anyone the payee requests (check cashing firm, third party processor, etc.) for many reasons including the high costs of doing business with most of these entities the fact that they are not regulated like

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financial institutions, they do not provide insurance protection (FDIC) and they are not covered by the EFT Act (Regulation E) and other consumer protection legislation.

There was a lengthy discussion on waivers in the request for comment. UMACHA agrees that there must be waivers and we agree with the waivers suggested. Our concern with the process is the individual without a "bank" account that certifies they have a hardship when in fact they do not. There could be many cases where the beneficiary perceives a hardship where in reality there is none. Without some kind of checking process the word will get out and any payment recipient unhappy with the idea of either opening an account at a financial institution, or having Treasury supply one, could ask for a hardship waiver without being in a truly hardship circumstance. We suggest Treasury either spot check the waivers or build a phase-in period for the waiver process so that some checking could be done.

In the section dealing with vendor payments it was noted that sometimes financial institutions charge to deliver remittance data. Treasury should **EXPECT** financial institutions to charge for this service. Because the financial institution did not originate the advice they are not in a position to build the cost recovery into the invoice. The only way they can recover their costs for translating and passing the data on is through some sort of charge, either through analysis or a hard charge. If Treasury considers this a problem they need to consider compensating those institutions passing on remittance data or finding other ways to pass the data on (secure internet sites operated by Treasury).

In the first part of section 208.5 dealing with the unbanked, Direct Deposit Too accounts were mentioned. In the upper Midwest we find most financial institutions already offering some type of free account and many also have senior citizen accounts that are either free or at very low cost. Our expectation is that if Treasury does a good job of marketing the idea of "for your convenience, talk to a nearby financial institution" a fair percentage of the unbanked may become banked.

The rest of our comment deals with the 10 questions asked as part of 208.5.

The first question deals with the use of debit cards for the unbanked. We have had a significant number of discussions in our region concerning the use of debit/ATM cards for these accounts. We think there are significant issues with this type of account but have not come up with a better idea, therefore we support this concept. We feel *VERY STRONGLY* that there needs to be an "extraordinary" training program available to teach these recipients how to use these cards since the vast majority of them have absolutely no familiarity with them and no interest (and sometime real fear) of the cards.

The second question asked for the most important factor for the recipient with this type of account. We felt accessibility would be the most important factor. If there is no ATM or POS terminal in close proximity the price isn't going to matter. Price is only important, if it is unreasonable. This question also asked if there might be other objectives for this account. This would require other services being offered. Our feeling is that this account should be very simple in structure. If the recipient wants other services they should open an account at a financial institution.

Questions 3,5,6, and 7 all deal with the addition of other services to the account. We feel that if the recipient wants additional services, whether it be a savings account, over the counter transactions, or payments through third parties, the recipient should open an account at a financial institution. The Treasury defined account should ONLY be a basic account with as few strings attached as possible.

Question 4 deals with the number of free withdrawals a recipient should have each month. This does need to be addressed at a national level because of the differences in charging philosophies now evident in the banking community. Please keep in mind that whatever decision treasury makes, it will force many of the ATM networks to make programming changes. We feel 3 to 4 free transactions is reasonable. That allows a recipient to take funds once a week or so.

Questions 8, 9, and 10 deal with terminal access. The number of ATM and POS terminals are staggering. And they keep growing. This number is much larger than the number of check cashing outlets. At issue is whether the national networks will participate, or only local networks. We suggest you make this a pricing issue. In other words, allow the national networks to charge more for usage outside a local area and they will probably participate. If they participate you again have financial institutions, with all the safety and soundness built in, managing the distribution. There are undoubtedly a few places in rural America where there are not ATM's. Treasury might consider making it a condition in the contract they write for this product, that the vendor install ATM's in certain areas with no access, or limited access. This would suggest that you have multiple (regional) vendors bidding for these contracts which we feel is positive.

UMACHA wants to thank Treasury for the opportunity to comment on this very important set of proposed Rules. We look forward to working with FMS and the agencies as we move toward that January, 1999 date.

Sincerely,

Fred Laing II

Fred Laing II
President

cc: UMACHA Board of Directors